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Restaurant Business

A BILL PUBLICATION

JANUARY 1, 1989

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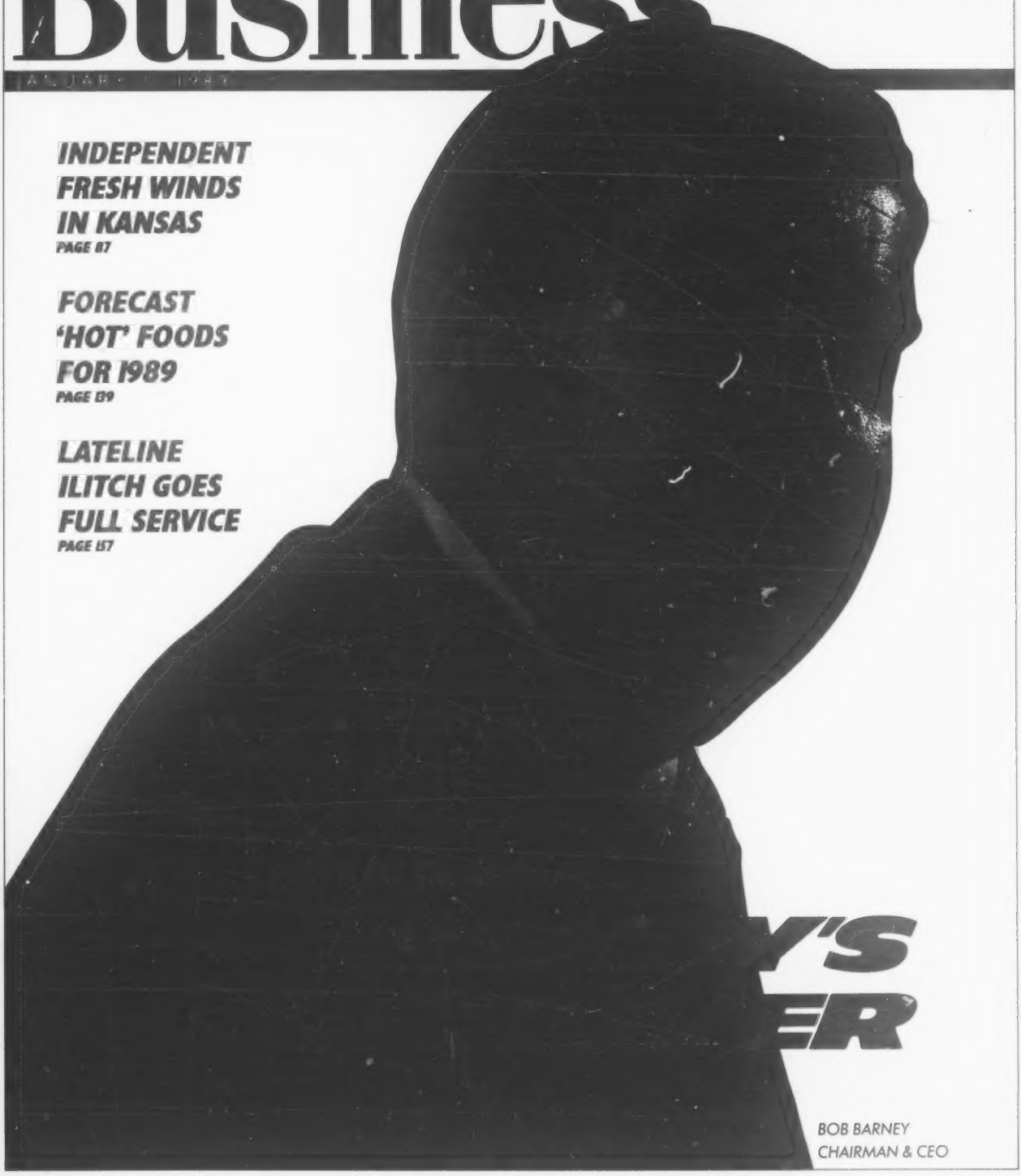

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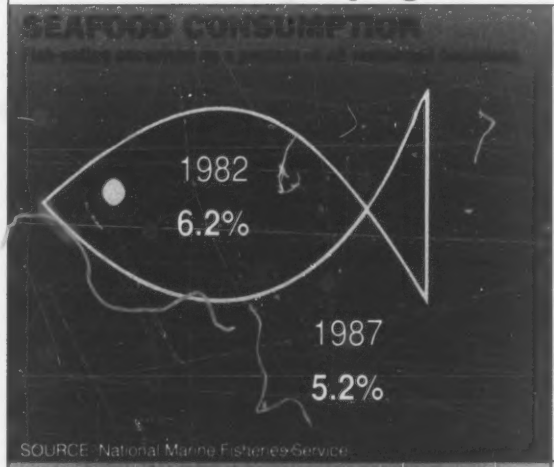
BOB BARNEY
CHAIRMAN & CEO

BUSINESS BAROMETER

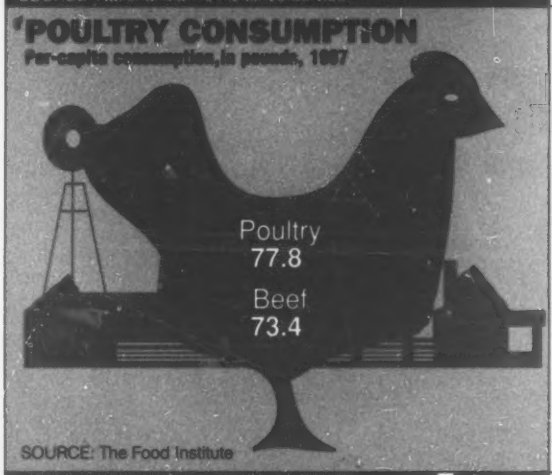
The Hard Facts Shaping Our Industry

By Howard Riell



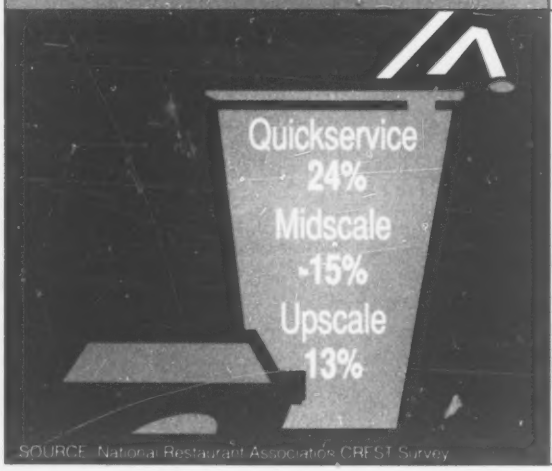
Restaurant Seafood Sales Sink

The good news, says the National Restaurant Association, is that "consumers are eating more fish than ever before." The bad news: They're not eating it in restaurants. CREST data shows that from 1982 to 1987, fish-eating occasions fell from 6.2% of all restaurant occasions to just 5.2%. Among the seafood that has not declined is shellfish; restaurant orders rose 4% in 1987. Per-capita shrimp consumption rose to a record 2.3 lb. in 1987, up from 1.5 lb. in 1982. Among price segments, adds the NRA, fish maintains the highest popularity at upscale dining establishments.



Packing Away The Poultry

Food Institute president Frank Panyko told the National Broiler Council recently that the growth in the number of households that regularly purchase chicken will outstrip the growth of households themselves, 24% to 22%. The popularity of chicken—concurrent with a growing interest in foods perceived as "healthful"—has been well documented. For 1987, in fact, per-capita consumption of poultry was 77.8 lb. as compared to 73.4 lb. for beef, according to Judith Putnam, agricultural economist for the U.S. Department of Agriculture. Health and price, she says, are factors.



Midscale Missing Off-Premise Mark?

Midscale restaurants, according to the NRA, are fumbling the ball in the increasingly lucrative off-premise lunch market—and are down overall over a five-year period. From 1982 to 1987, lunchtime take-out customer counts among midscale operations are down 15%, CREST figures show. For the same period, off-premise traffic at quick-service units is up 24%, and upscale traffic is up 13%. Of particular interest are statistics showing that on-premise traffic at midscale restaurants is also down 15% for the same period, while quick-service is up 20% and upscale is up 5%.

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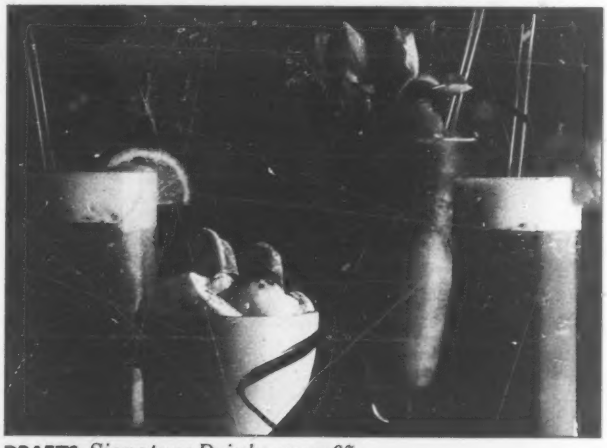

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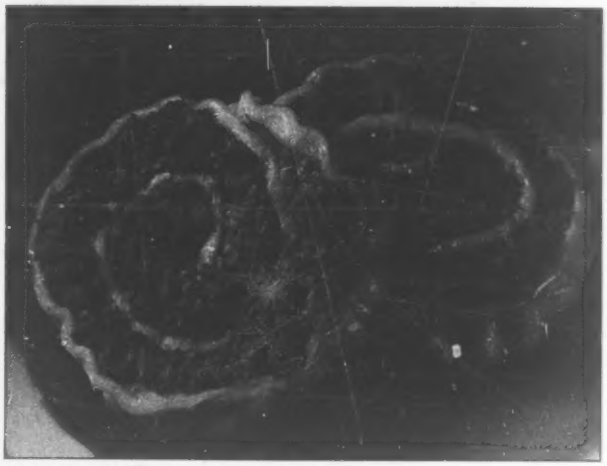

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COVER STORY

TURNAROUND STRATEGY WENDY'S. *Although it has been plagued by a series of difficulties since early 1985, Wendy's appears to be in the midst of a successful turnaround. Spurred on by increased customer counts largely attributable to its new SuperBar self-service food bar, the number-three burger chain's third-quarter sales were $769 million and earnings were $8.7 million. In addition, a restructuring of management has put support staff closer to the field, and operations and marketing have been reemphasized. Executives believe that the SuperBar will allow Wendy's to respond to changes in the marketplace more quickly than its competitors can, but observers wonder if the bar is moving the chain out of the burger business and into more long-range problems. In fact, it seems clear that the chain is not completely in the clear yet* 81

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Published 18 times a year by Restaurant Business Magazine, 633 Third Ave., New York, N.Y. 10017. Vol. 88 No. 1. Second Class Postage paid at New York, N.Y. and additional office (ISSN 0097-8043). Postmaster please send address changes to Restaurant Business, P.O. Box 5309, Grand Central Station, New York, N.Y. 10017.

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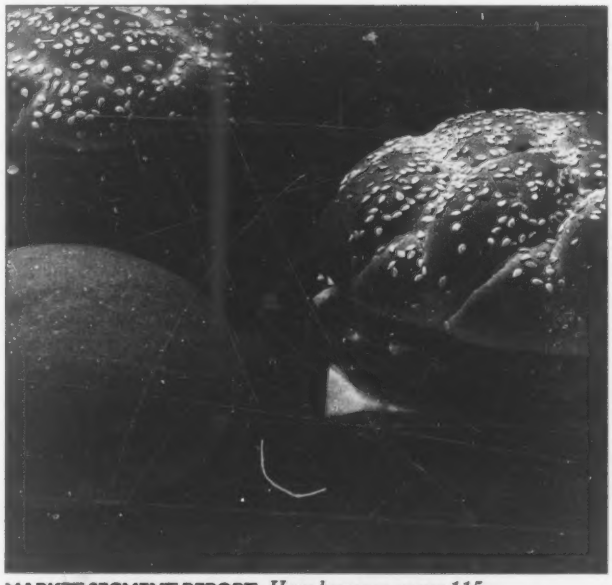
UPCOMING CONFERENCE

Participants from all segments of the foodservice and meat industries will gather at the first **CENTER-OF-PLATE** *Foodservice Marketing Conference. The Conference, scheduled for April 3 to 5 at the Hyatt Regency Hotel in Chicago, is cosponsored by* Restaurant Business *magazine and the American Meat Institute. RB's sister publications,* Institutional Distribution *and* FoodService Director, *will also participate. For more information, see story on page 24 and advertisement on page 146.*

REPRINTS AVAILABLE

Restaurant Business *now has available specially prepared reprints of the* **1988 RESTAURANT GROWTH INDEX** *and the* **1988 MAJOR FORCES IN FRANCHISING.** *These annual studies are invaluable reference tools.*

The reprints are available for $5 per copy. Direct inquiries to: Editor Peter Berlinski, Restaurant Business, *633 Third Avenue, New York, NY 10017.*



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COVER STORY

GREYHOUND FOOD MANAGEMENT

Determined to increase profits and solidify its position in the foodservice management market, Phoenix-based GFM is concentrating its efforts in a high-end, quality niche and implementing rigorous cost control standards.

SPECIAL REPORT

SMART HIRING

The solution to staffing problems in a tight labor market begins with the hiring process. This special report examines the techniques used to target, interview, and select the right kind of employees.

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BREAKFAST

Despite an industrywide cutback in breakfast marketing, the morning daypart still holds a lot of profit potential for smart operators.

MENU IDEAS

BEEF, PORK, AND VEAL

The center of the plate presents many opportunities for signature presentations, especially now that the popularity of red meat is on the rebound.

DRAFTS, CARAFES & SPIRITS

IMPORTED BEER

Sophisticated consumers are driving sales gains in imported brews.

GET
THE NEW
TOUGH SCOUR
NYLON
SOAP PAD

FROM
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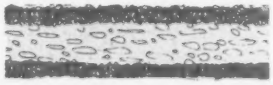
If you use steel wool soap pads for your commercial kitchen clean up, you'll love the New **TOUGH SCOUR** nylon soap pad. This durable pre-soaped scrubber has a special three layer construction to give you maximum grease cutting cleaning power.



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RESTAURANT BUSINESS Magazine (formerly FAST FOOD) (ISSN 0097-8043) is published 18 times a year by Bill Communications, Inc., 633 Third Ave., New York, NY 10017. Telephone: 212-986-4800. Copyright © 1988 by Bill Communications, Inc. All rights reserved. Subscriptions in the U.S., $74; foreign and Canada, $114; air mail, $212. Single copies in the U.S. and Canada, $5. Second class postage paid at New York, NY and at additional offices. Postmaster: Send address corrections to Restaurant Business, Attention: Roseanne Walsh, Circ. Dept., 633 Third Avenue, New York, NY 10017-6743.

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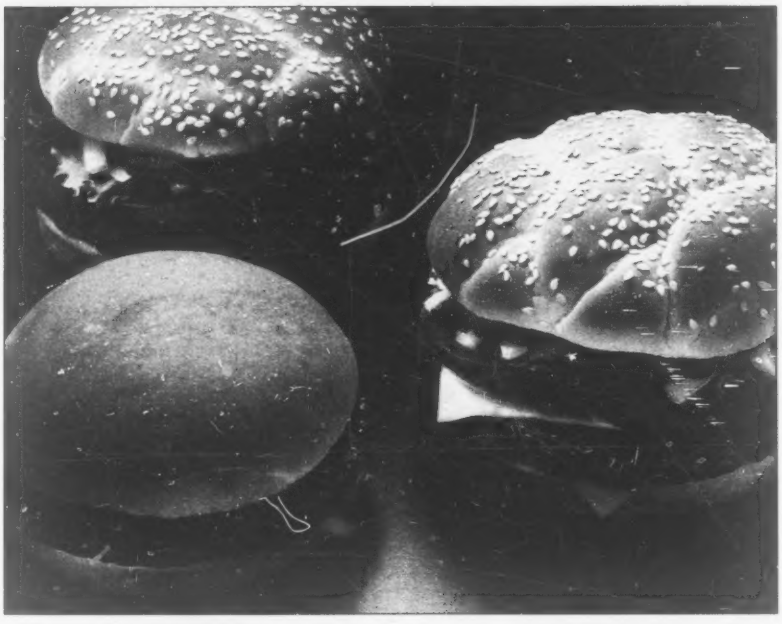
MARKET SEGMENT REPORT

HAMBURGER



Despite its broad and varied menu, Jack In The Box emphasizes hamburgers with its new Ultimate Cheeseburger.

As the burger biggies battle for market share, the smaller chains work at defining and developing their own unique niches.

BY JACQUE KOCHAK

The largest chains in the foodservice industry are battling for supremacy in the hamburger segment, yet ever-optimistic competitors insist there is still room for expansion. In fact, they say, there is room for new competitors if they serve a better burger in a better way.

"I believe the hamburger segment itself is very viable," says Mohammed Iqbal, executive vice president of marketing for San Diego-based Jack In The Box. "Chains have to develop their own strategies, and clearly identify how they are going to compete."

Oak Brook, IL-based McDonald's drives the segment, and many other large burger chains, including Burger King and Wendy's, have found themselves losing market share in the face of McDonald's nearly $300-million-a-year marketing blitz.

McDonald's is an institution, to be sure, a monolith and a marketing miracle. And McDonald's dominates the hamburger segment so completely that only the most brash would claim to mount a challenge.

McDonald's this year raised its share of the $25 billion fast-food market by two percentage points, scaring competitors at a time when the name of the game is market share.

The company operates more than 10,000 units in 50 countries (7,500 of them in the U.S.), and new McDonald's units are opening at the rate of one about every 17 hours.

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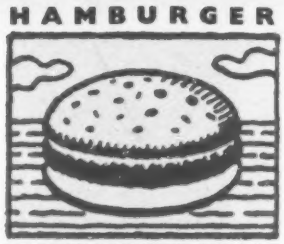
Several of the chains use nostalgia as their theme.



Systemwide sales in 1987 reached $14.3 billion, a 15% increase over 1986. Since going public in 1965, McDonald's has reported record systemwide sales, total revenues, and net income for 91 consecutive quarters.

Company-operated restaurant margins rose to 17.8% of sales in 1987, compared to 17% a year ago. The company says the improvement was due to higher sales and lower food, paper, and labor costs as a percentage of sales, and despite a 12% increase in beef costs. In 1987, average sales for restaurants open at least one year topped $1.5 million for the first time, a 75% increase over 10 years ago.

The company's $789 million advertising and promotion budget is more than the total of its four largest competitors', and observers agree that one of McDonald's strengths is its marketing presence.

DEFYING THE CRITICS. The McDonald's corporate culture insists on expansion, and the company has repeatedly defied critics' jeremiads about saturation. McDonald's seeks out unconventional domestic locations such as department stores, airports, and hospitals, and views the rest of the world as fair game as well.

The company's latest expansion coup is an invasion of the Soviet Union. Wholly owned subsidiary McDonald's Restaurants of Canada Ltd. expects to open 20 restaurants there, after 12 years of negotiations. The company says it fully expects its first restaurant in Moscow to serve from 10,000 to 15,000 Soviet citizens a day and earn from $4 million to $5 million a year. The restaurants will be managed in partnership with the Food Service Administration of the Moscow City Council.

EMBROILED. At press time, the nation's second largest hamburger chain—with 5,500 domestic units—Miami, FL-based Burger King Corp., was embroiled in a dramatic takeover battle as a British company, Grand Metropolitan PLC, fought to acquire Burger King's parent, Minneapolis, MN-based Pillsbury. Grand Metropolitan is a food and liquor conglomerate that franchises, among other businesses, some 4,500 pubs in Great Britain. After a series of moves and countermoves by both companies, the outcome was not yet clear.

The result of the takeover battle would clearly be extremely important to the future of Burger King, whose annual U.S. sales of $4.7 billion contribute significantly to Pillsbury's coffers. Concerned franchisees rejected a passive role as they injected themselves into the negotiations and were actively courted by both sides.

The actual battle began early in October, when the British company proferred a $60-a-share bid for beleaguered Pillsbury. As Grand Met courted stockholders (by press time, some 80% of Pillsbury stock had been tendered to Grand Met), Pillsbury management plotted ways to foil the hostile take-over attempt.

An important part of Pillsbury's defense was a proposed spin-off of Burger King, making Burger King Corp.

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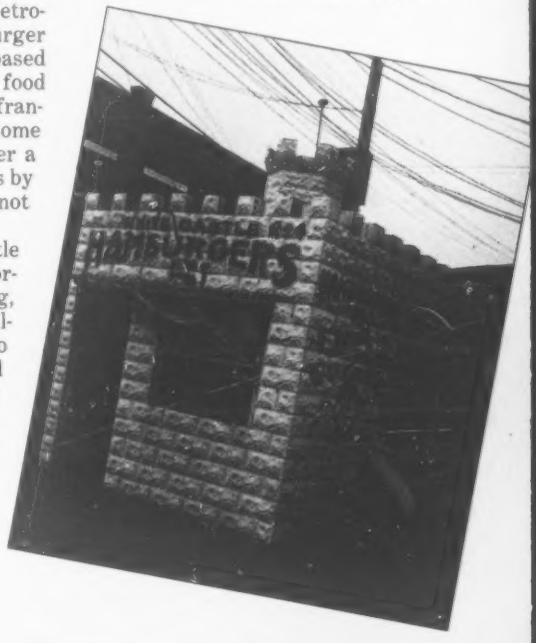

Top: The new White Castle.
Rt.: The original White Castle.

ILLUSTRATION BY BOB GALE

McDonald's is a powerhouse that completely dominates the market.

an independent entity. Franchisees meeting in Florida late in November roundly rejected the spin-off, saying that the debt load incurred would seriously hobble the new Burger King.

The spin-off would reportedly burden Burger King with well over $1 billion in initial debt, most of which would have passed through to Pillsbury stockholders as a special dividend. Consensus was that the financial community would never support a spin-off attempt that was not acceptable to Burger King's 1,400 franchisees.

Whatever the outcome of the war between Pillsbury and Grand Met, Burger King franchisees have clearly signaled their frustration.

"The franchisees simply don't trust Pillsbury," says franchisee David Stein, president of Southern Industrial Corp., which operates 23 BKs in Jacksonville, FL. "Pillsbury took Burger King profits and treated the company as a cash cow."

Stein believes that the sentiment among franchisees would be for an independent Burger King if the debt load were right. "But Grand Met seems like a good company," he notes.

While the extent of internal discord and franchisee disenchantment with Pillsbury had been hidden from the public, something had clearly been amiss at Burger King for some time. Sales had been slipping, and this year average unit volumes fell below the $1 million mark achieved in 1987. Critics are unanimous in pointing to management upheaval as well as erratic and unfocused advertising as problems.

One BK observer says that Burger King's marketing problems go deeper than erratic advertising. "Burger King seems to think that the way to compete is with better advertising, but Burger King is never going to have McDonald's ad budget," says Ron Paul of Chicago-based Technomic Inc., a consulting firm. "To compete with McDonald's, you've got to offer a better burger, and not just say so in advertising."

Mascot Ronald McDonald poses with some of the chain's prime customers at the opening of the 10,000th unit.

REVERSING TRENDS. The industry has also been watching Dublin, OH-based Wendy's International, the segment's third-largest company, with interest this year. (See cover story, page 81.)

The company has been posting improved profits and sales this year for the first time since 1986. Management has been revamped, and many cost-cutting measures have been taken. Most important, the company last year introduced an all-you-can-eat SuperBar, which apparently has reversed sales trends.

While Wendy's is out of deep water, observers still voice concerns about the introduction of the 18-ft., self-service SuperBar, which boasts a variety of hot and cold foods. The chief concern is that Wendy's risks blurring its image. Another question is whether the SuperBar's success is coming at the cost of other products.

This is a question that is puzzling franchisee Tom Hennings, president of Sis Corp. in Westlake, OH. Of his five Wendy's, only one has the SuperBar. "We've had the SuperBar about a year, and we are noticing that '88 sales are about the same as '87 sales," says Hennings. "Yet between $3,000 and $3,200 a week in sales, or about 18%, comes from the SuperBar. There appears to be some cannibalization."

Yet he hesitates to draw conclusions from the one store, because it might not be typical. That store has been affected by intense competition. "I don't know where sales might have been if we didn't have the bar," he notes.

Interestingly, sales at all but one of his other four Wendy's are up 7% over last year.

GOOD SHOWING. As the so-called Burger Wars have raged, Rocky Mount, NC-based Hardee's has made a very good showing, staking a claim to bypassing Wendy's and becoming the nation's third-largest burger chain. "Our biggest news is that we're making double-digit sales increases over last year, and we attribute the gains to

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Together the top four hamburger chains gross over $20 billion.

solid management," says Jerry Singer, Hardee's director of public relations. Hardee's, owned by Imasco USA, operates 3,000 restaurants and reported 1987 systemwide sales of $3.1 billion. Third quarter 1988 sales were $922 million, up 12.2% over last year.

Hardee's rolled out new Chicken Stix this spring, sold in packs of six or nine with a dipping sauce. In the recent past, the company has also reformulated its hamburger and introduced new biscuit breakfast sandwiches, prepackaged salads, and soft-serve ice cream.

While many other chains have seen flat or declining average unit volumes, Hardee's has seen unit volumes increase every year. Average unit volumes have reached $923,000, bypassing Wendy's volumes of $740,000 and within sight of Burger King's annual volumes of $1.03 million.

Hardee's plans expansion in New York, New England, and the West Coast; most of that expansion will be through acquisition. The chain intends to have 4,000 units by 1991.

SUCCESS STORY. In a segment notable for the number of strong, vital players jostling for market share, San Diego-based Jack In The Box, with some 900 units, is another success story. Back in the 1970s, Jack In The Box—then owned by Ralston Purina Co.—was scarcely distinguished from innumerable hamburger outlets.

All that started changing in 1980, when the company symbolically blew up its old clown logo and pursued an older, more affluent customer. An important part of this strategy was offering a different menu, which has served the company well in differentiating Jack In The Box from the competition.

"The way I see it, there's not a whole lot changing in this segment," says Mohammed Iqbal. "This is a mature industry, and we're moving toward what I call 'oligopoly,' with fewer, larger chains or smaller chains that have identified a niche. We have defined a niche for ourselves by offering new and exciting foods through the year."

Indeed, Jack In The Box's menu is anything but static. Last year, the company introduced a line of finger foods consisting of egg rolls, chicken strips, and shrimp. Then came the extremely successful chicken Fajita Pita. The newest introduction is a Mexican finger food—taquitos.

Despite the emphasis on new food introductions, Jack In The Box is very much still in the hamburger segment. "We were the first to introduce a bacon cheese burger, and our Swiss and bacon burger on grilled rye is unique to us," says Iqbal. "And when we introduced our Ultimate Cheeseburger, we got an enormously good response. We believe in innovation in all areas, including hamburgers."

Last year, Jack In The Box enjoyed a record year for the second year in a row, and broke several sales records, says Iqbal. For two years, the company has seen above-average positive real sales growth. In fact, the chain's per-store volumes have increased by over $100,000 in the last year, up to $900,000.

In the 1970s, a beaten Jack In The Box pulled out of far-flung markets to concentrate on its western strongholds. Now, the company is poised for a new round of growth, with plans to grow to 1,400 units in existing markets within six to seven years.

Oklahoma City-based Sonic Industries has done an admirable job of turning nostalgia for lost places and times to its advantage.

The company is authentically straight out of the '50s, with customers ordering from their cars, and orders delivered by carhops.

Sales reached $300 million in 1987, with older units averaging yearly sales of $315,000 and newer units approaching $550,000. Sonics typically have 20 to 24 ordering stations. During rush meal periods, necessity calls for turning those stalls as quickly as possible, so Sonic recently began testing a five-minute service guarantee.

Sonic's 1,000 units, located mainly in small towns in the Southwest,

TOP TEN HAMBURGER CHAINS

Company Name	Total U.S. Units	Total U.S. Sales 1987
McDonald's Corp. Oak Brook, IL	7,567	$10.6 billion
Burger King Corp. (Pillsbury) Miami, FL	4,884	$4.7 billion
Wendy's International Inc. Dublin, OH	3,601	$2.6 billion
Hardee's Food Systems Inc. (Imasco Ltd.) Rocky Mount, NC	2,883	$2.5 billion
Jack in the Box (Foodmaker) San Diego, CA	897	$684.6 million
Carl's Jr. (Carl Karcher Ent.) Anaheim, CA	446	$380 million
Sonic Industries Inc. Oklahoma City, OK	353	$315 million
White Castle Systems Inc. Columbus, OH	229	$283 million
Whataburger Inc. Corpus Christi, TX	345	$210 million
Krystal Co. Chattanooga, TN	243	$185 million

There are 31,920 hamburger units—9.0% of total U.S. restaurants.

serve the same menu they've served since the '50s, with onion rings, Coney dogs, limeades, and cherry colas complementing the hamburgers and hot dogs.

The company has been growing steadily since a leveraged buyout by management in April 1986. The company opened 50 units in fiscal 1987, another 60 in fiscal 1988, and projects the opening of 75 in fiscal 1989. Growth focuses on California and the Southeast.

Anaheim, CA-based Carl's Jr., in deep trouble just two years ago, is again a real competitor in the fast-food arena. Real sales for the 462-unit chain, operated by Carl Karcher Enterprises (CKE), are up 15% to 20% in recent quarters over last year's sales, and an aggressive program of new products and unit remodelings is helping the company.

CKE is in the second phase of a test using debit cards at its Carl's Jr. units in the San Diego and Sacramento markets. Fatty Beckmann, media relations representative, says the company is not releasing statistics, but acknowledges that the program "is working very well."

In May, Carl's Jr. introduced four new prepackaged salads: a garden salad, a chef's salad, a taco salad, and a charbroiled chicken salad.

Following CKE's turnaround, the company has resumed expansion, says Beckmann. Thirty-five new units opened this year, with plans calling for 48 to open next year. Carl's Jr. units operate in California, Arizona, Nevada, and Oregon.

CULT BURGERS. A strong regional competitor is Chattanooga, TN-based Krystal Co., with some 250 units in the Southeast. Krystal is one of only two companies (the other is White Castle) occupying what vice president of marketing Ted Murphy calls a "cult burger" niche.

Murphy says that for a while Krystal tried to run away from its image. "Now we're refocusing on what we are, and we have seen our first customer count increases in 10 or 15 years," says Murphy. "Nostalgia is great, but you've got to continue to bring in new customers to pass the torch."

Krystal is gradually trimming down its menu, but recently added a new Sunriser hand-held breakfast sandwich. The square sandwiches, with square-shaped eggs cooked using a steaming process similar to that used for Krystal hamburgers, cost just 59¢. Where the Sunriser has been introduced, breakfast business has increased by 25% to 35%, says Murphy.

The company also introduced new Double Krystals, with a better meat/bun ratio than regular hamburgers have. Unit sales are up as much as 14% with the introduction of the Double.

Krystal units are all company-owned. In the future, says Murphy, expansion will focus on the new Krystal Kwik, a drive-thru-only unit.

NEW GENERATION. The other "cult burger" classic, Columbus, OH-based White Castle System Inc., is also faced with the challenge of attracting a new generation while keeping a loyal but aging customer base. The 67-year-old company, which family members say "invented" fast food, has been testing a new marketing program.

Over a year ago, the company introduced its first packaged children's meal, the "Castle Meal." White Castle is also experimenting with several additions to its limited menu, including chicken nuggets and several breakfast sandwiches.

Nevertheless, management is reluctant to tamper too drastically with success. White Castle's annual unit volumes, at $1.3 million, are among the highest in the segment. Sales for 1988 are projected at $300 million.

Newer units are slightly more upscale, with bright orange canopies and decorative stained glass windows. Interiors are earth-toned.

Another hamburger chain that benefits from nostalgic memories is Livonia, MI-based A&W Restaurants Inc., which was almost purchased by Sonic a couple of years ago. The company, with 530 units, is a subsidiary of Taubman Investment Co. Inc.

A&W has been growing steadily for the last two years, with 12 new franchised restaurants opened during 1987 and 25 expected to be open by the end of 1988.

Expansion involves three new prototype designs, according to Mary Owens, a spokesperson for the company. A new 3,000-sq.-ft. restaurant offers counter service, inside dining, and a drive-thru window. The same building design is available in a slightly larger format, while a third prototype is a 1,160-sq.-ft. drive-thru-only design.

A&W management is also actively looking at new types of locations that haven't been considered in the past, such as food courts and strip centers. Because of soaring building costs, A&W is also considering conversions.

DRIVE-THRU-ONLY. Everyone agrees that the relatively new drive-thru-only kiosk concepts, serving a limited selection quickly and inexpensively, have identified a viable niche.

The drive-thru-only alternative appears so attractive that some other

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SOUTH BUYS BURGERS

Distribution of Hamburger Restaurants by U.S. Census Regions.

New England	3.0%	965 units
Middle Atlantic	8.5	2,706
East/North Central	16.9	5,389
West/North Central	8.8	2,794
South Atlantic	16.8	5,349
East/South Central	7.7	2,451
West/South Central	15.6	4,994
Mountain	6.3	2,002
Pacific	16.4	5,270

Total hamburger restaurants: 31,920 units, or 9.0% of total U.S. restaurants

SOURCE: RE-COUNT '88, Restaurant Consulting Group Inc.

More than one third of all hamburger units are in the South.

fast-food companies have tested their own versions. Both the Hardee's and Burger King chains are said to have tested drive-thru-only units, and Columbus, OH-based Rax Restaurants is testing a similar concept called Zoomz that serves a limited menu of sandwiches, fries, drinks, and burgers.

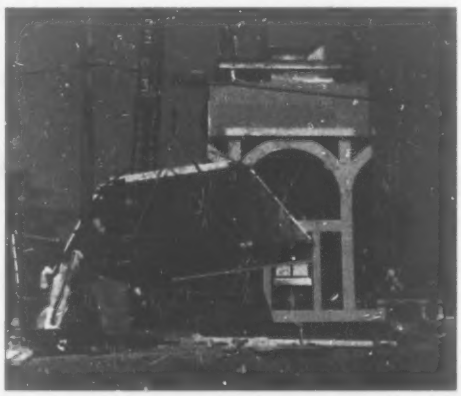
Questions arise about the long-term viability of such concepts, however. "They don't have a brand name working for them yet," says Ted Murphy, vice president of marketing for Krystal Co., which is rolling out its own Krystal Kwik alternative.

Even the drive-thru-only operators themselves are not without concerns. "There are lots of clouds," says Rick Lodde, president of Birmingham, AL-based Skooter's Inc. "In the past we've gone for small, inexpensive lots, but now they're getting expensive."

Also, he notes, drive-thru-only sales overall are not as high as some people might think, with the average probably between $8,000 and $12,000 a week. And, most of the small chains lack the market penetration necessary to effectively advertise.

The great granddaddy of the drive-thru concepts is Los Angeles' In 'N Out Burgers, but the new breed of drive-thru-onlies say they themselves are a different kind of operation. For one thing, In 'N Out Burgers' menu is much broader, the price point is higher, and there is patio seating.

The leading drive-thru-only competitor so far is Rally's, which has earned respect from friends and competitors alike. Rally's, based in Louisville, KY, is a private company started in 1984 by foodservice veterans Jim Patterson and Wayne Albritton. The two are now franchisees.



Central Park U.S.A. uses modular construction to build its drive-thru-only burger units in less than a week.

The company now has about 115 units spread through 17 states from California to Massachusetts. All but two units are franchised, and growth in the future will come from franchising, says president and chief executive officer Richard Sherman.

Competitors note that Rally's strength comes from the principals' very strong roots in the foodservice industry; for example, among early investors and first franchisees were the Trotter brothers, founder of Chart House Enterprises.

Items on the menu are priced at about 30% less than similar offerings at major fast-food chains, Sherman says. The menu is broader than that of most double drive-thrus, with sandwiches such as chicken and hot dogs offered in addition to burgers.

Another drive-thru-only concept that has shown staying power is Chattanooga, TN-based Central Park U.S.A., which will operate 40 units by the end of the year in the Southeast, mainly Tennessee. The first unit opened in 1982, and since that time, the format hasn't changed even slightly.

Says Robert Davenport Jr., chief executive officer, "We're committed to serving the highest quality at the lowest price. We do business in a very straightforward way." The only change in the company's way of operating is the initiation of a franchising program last January; by the end of the year, a dozen units will be operated by franchisees.

Central Park has also started using modular buildings, which arrive at the site only a week before the opening date. The modular parts are constructed of a stucco-like material spread over a plastic foam base.

The drive-thru-only niche appears to be so promising that at least one operator of upscale hamburger restaurants has switched expansion plans to focus on a drive-thru concept. The company is Denver-based Round the Corner Restaurants Inc., which has operated for over 20 years.

Round the Corner, under the leadership of chairman of the board Ed Mas-

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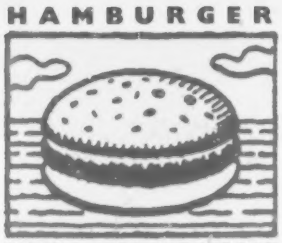

Despite chain dominance, independents manage to thrive.

sey, spent a good deal of time doing market research and developing a prototype called Good Times!, then tested the concept in Denver for about a year with extremely favorable results. According to Massey, Good Times! is averaging sales of almost $800,000 on an annualized basis.

In order to expand the concept, Massey recently brought in Hal Taylor as new president. Taylor was president and chief executive officer of Calny Inc., the largest Taco Bell franchisee with 150 units. The Good Times building is a 540-sq.-ft. structure costing about $260,000 to open. Massey says the company's objective is to become a major chain within five years. Initial development will take place in the Denver ADI.

The star of West Coast-based Carl's Jr.'s menu is its extensive line of Star Burgers.

A smaller company that has worked out some kinks is Birmingham, AL-based Skooter's, with a new president drawn from the ranks of franchisees. He is Ricke Lodde, who has made a commitment to increasing speed of service and to upgrading the company's signature quarter-pound hamburger. He is also upgrading equipment and site layout.

Skooter's concentrates on a burger, fries, and soft drink, but also offers a made-from-scratch biscuit breakfast program and "The Blaster," a soft-serve ice cream dessert with pieces of cookies and candies swirled in.

Like Central Park U.S.A., Skooter's has shifted to the use of modular construction. For now, expansion will be cautious, with four new units opened in 1988, during which time three others closed. Lodde says that he hopes to double the size of the company in the next year.

GOURMET BURGERS. Disaster followed when too many companies plunged into the so-called gourmet burger niche a few years ago. In the wake of bankruptcies and failures, a successful marketing opportunity still existed, and a few companies have managed to stake a claim.

"There is still opportunity in the burger segment, because burgers are so popular. I think the public is still not getting the 'adult burger,' offered with some service, on a chain basis," says consultant Ron Paul of Technomic Inc.

Independents have long flourished by offering a high-quality, upscale burger with a variety of toppings in atmospheric surroundings.

One independent is San Francisco's funky Hamburger Mary's. Co-owner/manager Dale Rideout says that Hamburger Mary's was born in 1972 as a "hippie hangout joint" south of bustling Market Street, a now-trendy area full of warehouses, lofts, and artists. Market Street is now jammed with restaurants, and funky Hamburger Mary's has been called the "Grandmother of Restaurant Row."

The centerpiece of the menu is, of course, a hamburger—the Mary Burger, priced at $4.25. The Mary Burger can be dressed up with cheese, mushrooms, avocados, blue cheese dressing, and Spanish salsa. In addition, the restaurant offers a create-your-own omelet with 25 alternatives, other egg dishes, sandwiches, homemade soups, salads, steaks, and fish.

The funky atmosphere and reasonably priced menu have won a loyal following ranging from families with toddlers in tow to movie stars, proof that the ever-popular hamburger has lost none of its allure.

One of the companies that helped draw attention to the potential of gourmet burgers in the first place was San Antonio, TX-based Fuddruckers, which pulled itself out of financial turmoil after succumbing to too much competition and is now successfully completing a turnaround. The company's franchising network is continuing to expand, with units opening in eastern Canada, Great Britain, Mexico City, Australia, and Japan.

"We want to give the customer the message that we're now a new type of restaurant," says Paul Yarmoluk, vice president of development. In fact, Fuddruckers has now remodeled five units to resemble diners, and is also testing a full-service format in two units.

FUN FOODS. The new menu relies heavily on "fun foods," which resemble appetizers but are positioned as inexpensive alternatives to burgers (although burgers still make up 40% of sales). "If we're twisting Fuddruckers to give it more the feel of a dinner house, it is necessary to give more options," Yarmoluk says.

Fun foods include chicken wings, nachos, soft tacos, and beer-battered onion rings, as well as five new salads served in crispy tostada shells.

Yarmoluk is also attempting to open up new dayparts with additions such as cinnamon rolls and muffins. "I don't think we can survive on the hamburger business alone," he says.

A particularly successful addition has been frozen drinks called Daiquiritas. "It's a big step for us to get back into the bar business," Yarmoluk says. In fact, with the addition of the new drinks liquor sales jumped from 5% of sales to 19½%, of sales at a full-service test prototype in Los Angeles. ■